

**OFFICE OF THE
WASHINGTON STATE LIQUOR CONTROL BOARD
Board Meeting /April 19, 2006**

The regular meeting of the Washington State Liquor Control Board was called to order at 10:00 a.m., on Wednesday, April 19, 2006 in the Board conference room, 3000 Pacific Avenue S.E., Olympia, Washington, by Board Member Roger Hoen. Board Member Vera Ing was present. Tony Kim, Administrative Assistant to the Board summarized the minutes.

Retail Services Division – Liquor Store Lease Renewal, #084, Tacoma
Suzanne Lewis, Store Leasing Manager

The lease for Store No. 084, located in 72nd Street Square at 1415 East 72nd Street, Tacoma, expired on March 31, 2005 and has been on a month-to-month extension since then.

BACKGROUND

Store No. 084 has been located in 72nd Street Square since April 1990. At that time, the center was anchored by Hogan's Market, an independent grocer, and PayLess Drugs. Over the years the tenant mix has changed and the center's anchors are now a Goodwill store and a Dollar Store. An additional building has been added to the center and includes Hollywood Video, Subway, a teriyaki restaurant, a check cashing establishment and a hair and nails salon. Safeway is located kiddie-corner from the center and K-Mart and a new Schuck's Auto Parts are directly across 72nd Street.

PROPOSAL

The Lessor, John Hogan of CRH Retail Properties, has proposed a three (3) year lease renewal in our current 4,215 square foot space. The new rental rate will be \$4,741.87 per month, or \$13.50 per square foot per year, for the entire 3 year term, effective April 1, 2006.

The lease may be terminated by either party with a six (6) month written notice from the first of the month following.

The Lessor has agreed to all requested repairs and improvements, including new lobby and restroom floors as well as additional exterior lighting and general repairs. He has also agreed to the provisions of Appendix A, "Areas of Responsibility".

The Board will pay its pro rata share of any property tax increases over the 2005 base year.

SALES HISTORY

Recent sales history for Store No. 084 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$1,513,049	\$444,378	\$1,957,427
FY2004	\$1,441,581	\$373,675	\$1,815,255
FY2003	\$1,279,828	\$311,573	\$1,591,401

Sales/sq ft: FY05 = \$462 (average for all state liquor stores was \$677 for FY04)
 NOTE: Retail sales increased an average of 6% over the last 3 years with licensee sales now over 22% of gross sales. Sales are expected to continue to increase at the same rate or higher.

Profitability: FY05 = 12.1% while the average profit for all state stores was 11.02 %.
 NOTE: Lease renewal = 11.3% without any sales increase.

ADDITIONAL DATA:

Current rental rates for other liquor stores in the area are:

#122 Tacoma-72nd & Pacific – 6,000 sq ft @ \$6,250.00/mo, or \$12.50/sq ft/yr, in Yrs 1-5
 \$7,000.00/mo, or \$14.00/sq ft/yr, in Yrs 6-10
 10 year lease expires on 10/31/07

#154 Puyallup-Summit Canyon – 4,088 sq ft @ \$4,500.00/mo, or \$13.21/sq ft/yr,
 Currently on a month-month extension

NOTE: Store #122 is in a strip center near Fred Meyer and Walgreens on a very busy arterial. Store #154 is located with a bank and a chiropractor in a strip center next to a large, independent grocery.

SUMMARY

Summary of the lease renewal for Store #084:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
\$3,529.00	\$4,741.87 Yrs 1-3	+34%
\$10.00/sq ft/yr	\$13.50/sq ft/yr	

Ms. Lewis recommended approval of this lease renewal for Store #084.

Board Member Ing moved for approval. Board Member Hoen seconded the motion, and it was passed.

Retail Services Division – Liquor Store Lease Renewal, #084, Tacoma

Suzanne Lewis, Store Leasing Manager

The lease for Store No. 014, located at 128 East 5th Street, Port Angeles, expired on September 30, 2005 and has been extended through February 29, 2008.

BACKGROUND

Store #014 has been in its current location since June 1985. It is located on the west side of town behind a service station just off Lincoln Street, which is

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Highway 101 heading south toward Forks. There is a small sandwich shop sharing the building.

Staff has searched for a more visible location for several years and has finally identified a property toward the east end of town that was formerly the site of a Jackpot gas station. The potential Lessor plans to remove the gas tanks and construct a new 6,000 square foot building for the liquor store. They may redevelop the remaining portion of the property for another small tenant or two. The site is on East Front Street, the one-way street heading west toward downtown, which carried nearly 23,000 cars per day in 2003 versus 14,000 cars per day on Lincoln Street. There is a traffic light at the intersection of Front Street and Ennis Street with easy access for traffic from all directions.

PROPOSAL – 1331 East Front Street

The Lessor, Ron Asleson, has proposed a ten (10) year lease in a new 6,000 square foot space. The new rental rate will be \$11,500.00 per month, or \$23.00 per square foot per year, during Years 1-2, \$12,250.00 per month, or \$24.50 per square foot per year, during Years 3-4 and \$13,000.00 per month, or \$26.00 per square foot per year, during Years 5-10. Depending upon the time required for a more extensive environmental review, we anticipate that the new store will be ready in early 2007.

The Lease may not be terminated during the initial ten (10) years of the lease term, except pursuant to Paragraph 2, if applicable, or if Lessor(s) is in default under this agreement and fails to cure such default within 30 days after receipt of written notice of the default.

The Lessor has agreed to construct the new building per the Board’s “General Specifications...”, including fire sprinklers and exterior signage. He has also agreed to the provisions of Appendix A, "Areas of Responsibility", with no exceptions.

The Board will pay its pro rata share of any property tax increases over the fully reassessed base year.

SALES HISTORY

Recent sales history for Store No. 014 is as follows:

	<u>Retail Sales</u>	<u>Class H Sales</u>	<u>Gross Sales</u>
FY2005	\$2,989,094	\$747,912	\$3,737,006
FY2004	\$2,768,573	\$684,539	\$3,453,112
FY2003	\$2,508,305	\$640,090	\$3,148,395

Sales/sq ft: FY05 = \$747 (average for all state liquor stores was \$677 for FY05)
NOTE: Retail sales have averaged a 7.4% increase over the last 3 years and are anticipated to continue this growth rate due to new residential growth.

Profitability: FY05 = 15.3% while the average profit for all state stores was 11%.

NOTE: Due to the recent increase in retail sales and continued growth in the area, retail sales are projected to grow at a rate of 9% per year at the new site. At that rate, with no increase in licensee sales, the projected profit would be 13% in Year 1, 14.1% in Year 2, 15.6% in Year 3, 15.2% in Year 4 and 15.7% in Year 5.

ADDITIONAL DATA:

Comparable lease rates for new construction are:

#135 Sequim – 5,500 sq ft @ \$11,000.00/mo, or \$24.00/sq ft/yr, in Yrs 1-3
\$11,916.67/mo, or \$26.00/sq ft/yr, in Yrs 4-6
\$12,833.33/mo, or \$28.00/sq ft/yr, in Yrs 7-10
New 10 year lease began in January 2006.

#018 Mount Vernon – 5,831 sq ft @ \$10,204.25/mo, or \$21.00/sq ft/yr, in Yrs 1-5
\$11,176.08/mo, or \$23.00/sq ft/yr, in Yrs 6-10
New 10 year lease began in October 2005.

NOTE: Store #135 is in a new strip center in front of WalMart and across from Home Depot. Store #018 is located in a stand-alone building across from WalMart and Safeway.

SUMMARY

Summary of the lease proposal for Store #014:

<u>Current Rent</u>	<u>Proposed Rent</u>	<u>Change</u>
5,000 sq ft	6,000 sq ft	+20%
\$3,625.50	\$11,500.00 Yrs 1-2	+217%
\$8.70/sq ft/yr	\$23.00/sq ft/yr	+164%
	\$12,250.00 Yrs 3-4	+6.5%
	\$24.50/sq ft/yr	
	\$13,000.00 Yrs 7-10	+6.1%
	\$26.00/sq ft/yr	

Ms. Lewis recommended approval of Lease Proposal to relocate Store No. 014 to new location at 1331 East Front Street in Port Angeles.

Board Member Ing moved for approval. Board Member Hoen seconded the motion, and it was passed.

Policy, Legislative and Media Relations Division – Approval for filing a pre-proposal statement of inquiry (CR 101) on rule changes resulting from legislation adopted in the 2006 session

Pam Madson, Rules Coordinator

The following bills were passed during the 2006 legislative session that require changes in existing administrative rules (WAC) or the development of new rules:

New Law	Affected WACs
<p>SHB 3128 – Tied house exceptions:</p> <p>Allowing winery licensees to sit on the board of a non-profit organization that constructs or operates the Clore Center;</p> <p>Allows winery licensees to sit on boards of charitable nonprofit organizations that hold retail licenses, typically special occasion licenses.</p>	<p>314-12-140 – Prohibited practices</p> <p>314-050-020 – What is a special occasion license?</p>
<p>HB 3154 - Allows a domestic brewery or microbrewery holding a spirits, beer, and wine restaurant license to sell kegs “to go” of its own production and to sell its beer in small containers from the tap in the restaurant “to go”.</p>	<p>314-20-015 - Licensed brewers -- Retail sales of beer on brewery premises -- Spirit, beer and wine restaurant operation.</p>
<p>ESB 6537 – Direct shipment of wine to consumers by in-state and other U.S. wineries.</p>	<p>314-24-040 – Wine labels – certificate of approval</p> <p>314-24-090 – Wine labels</p> <p>314-24-150 – Wine records</p> <p>314-24-240 – Delivery conditions</p> <p>314-24-250 – Labeling requirements for private wine shippers</p> <p>314-19 – Chapter on beer and wine reporting and tax payments</p>
<p>SSB 6540 – Processing liquor licenses.</p>	<p>314-07-010 – Definition (Public institution)</p> <p>314-07-020 – Liquor license qualifications and application process.</p> <p>314-07-055 – Temporary retail license</p>

New Law	Affected WACs
2SSB 6823 – Self-distribution of beer and wine directly to licensed liquor retailers.	314-24-150 – Wine records 314-24-190 – Wine supplier and distributor price postings 314-20-050 – Beer distributors - records 314-20-100 – Beer supplier and distributor price posting 314-19-015 – What are the monthly reporting and tax payment requirements 314-19-020 – What if a licensee doesn't report or pay the taxes due, or reports or pays late? 314-16-160 – Purchases – reports 314-13-010 – Who can retail licensees purchase beer, wine, and spirits from?

Background

The bills described above passed during the 2006 legislative session and become effective June 7, 2006, with one exception. Self-distribution by wineries and breweries to licensed alcohol retailers is effective as of April 14, 2006. The Liquor Control Board anticipates implementation of the two bills dealing with direct shipments of wine to consumers and self-distribution of wine and beer to retailers by July 1, 2006.

Process

Ms Madson requested approval to file the pre-proposal statement of inquiry (CR 101) for the five separate rule making processes described above.

If approved for filing, the tentative timeline for the rule making process is outlined below:

April 19, 2006	Board is asked to approve filing the preproposal statement of inquiry (CR 101)
May 3, 2006	Code Reviser publishes notice, LCB sends notice to rules distribution list

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June 2, 2006	End of written comment period
June 7, 2006	<i>Earliest</i> date that Bd can consider approval of proposed rule making (CR 102 filing)
June 28, 2006	<i>Earliest</i> date notice can be published in state register
July 18 or 19, 2006	Public hearing (Tuesday or Wednesday)
July 28, 2006	End of written comment period
August 2, 2006	<i>Earliest</i> date Bd may adopt rules
August 8, 2006	Agency sends notice to those who commented both at the public hearing and in writing.
August 9, 2006	Agency files adopted rules with the Code Reviser
September 8, 2006	Rules are effective (31 days after filing)

Board Member Hoen moved for approval. Board Member Ing seconded the motion, and it was passed.

The Meeting was adjourned at 10:20 a.m.

Merritt D. Long
Chairman

Vera Ing
Board Member

Roger Hoen
Board Member